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CIA/OER/S-05694-73

MEMORANDUM FOR: Mr. Anthony J. ...
Council on International Economic
Policy

SUBJECT : Japan's Eroding Position in World
Textile Trade

In response to conversations with members of your staff, we are sending the attached information on Japan's textile trade. Because of rising wage rates in Japan and currency realignments over the past two years, the country's competitive position in the textile industry has been seriously eroded. As a result of these factors, imports are soaring while overseas sales are increasing only moderately. If you wish additional information on this or related matters, we would be glad to provide it.

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MAURICE C. ERNST
Director
Economic Research

Attachment:
As stated

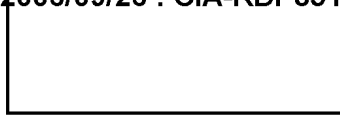
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OER/I/JP, (20 Nov 73)

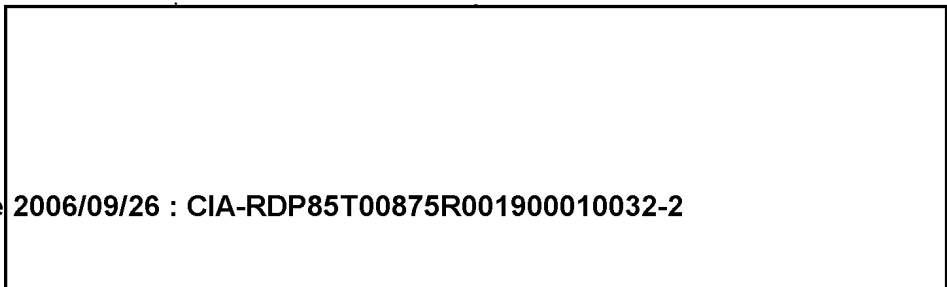
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JAPAN'S ERODING POSITION IN WORLD TEXTILE TRADE

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JAPAN'S ERODING POSITION IN WORLD TEXTILE TRADE

After many years of dominating world textile markets, Japan's position as a net exporter of textile products is being rapidly eroded. During the first 8 months of 1973, Japanese imports of these goods totaled \$898 million, up 191% from the same 1972 period. Imports of all types of textile products have increased sharply. Purchases of apparel and yarn and thread tripled, and imports of fabrics and non-clothing goods grew by 184% and 164% respectively (See Table 1).

The rapid growth in imports stems from Japan's weakening competitive position. Wage rates in the Japanese textile industry have increased sharply in recent years and are now higher than in many Western European countries. Several currency realignments have further eroded Japan's ability to compete in both domestic and foreign markets for inexpensive textile products. The Japanese textile industry is already complaining about the flood of imports and Tokyo is now considering quantitative controls. Japanese imports of synthetic yarns and threads have increased sharply because of the industry's capacity constraints, but these items accounted for only a small share of the increase in textile imports this year.

Low cost producers, particularly South Korea, Taiwan, and the People's Republic of China, are making substantial inroads into Japan's market for inexpensive textile products. Imports

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from each of these countries have more than tripled. Purchases from the United States, about 7% of Japan's total textile imports, also are growing rapidly. During the first 8 months of 1973, Japanese textile imports from the United States were \$62 million, 73% higher than the imports of the corresponding 1972 period (See Table 2). Imports of yarns and threads grew particularly fast, reaching nearly \$8 million, four times the level of the same 1972 period.

Japan's exports of textile goods have been sluggish. During January-August, sales totaled \$1.7 billion, only 7% more than in the corresponding period of 1972. Sales of apparel actually fell by 11%. Exports to the United States, normally one-fourth of Japan's total textile exports, fell by 8%, partly because of restraints on shipments to the United States. Sales to Western Europe also are off sharply.

To cope with these problems, Japan is investing heavily in overseas textile industries. These facilities are usually supplied with Japanese intermediate products which are processed into finished goods for sale in both the host country and third country markets. Japan already has textile plants throughout Southeast Asia and has established joint ventures in Costa Rica, Guatemala, Brazil, and Peru. Plans are being made to set up textile operations in Malaysia, Indonesia, and Mexico. Investment in the US textile industry also is on the rise and recently announced agreements to

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establish two large Japanese-owned textile plants in the United States will bring to at least 8 the number of such plants in the United States.

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Table 1

JAPANESE TEXTILE TRADE
(Million US Dollars)

	IMPORTS		EXPORTS	
	Jan-Aug 1972	Jan-Aug 1973	Jan-Aug 1972	Jan-Aug 1973
Yarn & Thread	45	137	317	358
Fabrics	153	435	881	952
Apparel	86	260	258	230
Made-up Goods	25	66	113	139
TOTAL	309	898	1,569	1,679

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Table 2

DIRECTION OF JAPANESE TEXTILE TRADE
(Million US Dollars)

IMPORTS

	January-August 1972	January-August 1973	% Change
South Korea	71.6	224.8	214
Taiwan	28.2	98.2	248
China	35.6	120.9	240
Hong Kong	11.1	44.3	299
United States	35.6	61.5	73
Western Europe ¹	81.0	186.6	130
Other	46.2	162.0	251
TOTAL	309.3	898.3	190

EXPORTS

	January-August 1972	January-August 1973	% Change
United States	342.7	316.8	-8
Hong Kong	165.4	175.3	6
South Korea	71.5	161.1	125
Taiwan	47.2	74.2	57
Western Europe ¹	79.7	63.6	-20
Other	862.0	888.0	3
TOTAL	1,568.5	1,679.0	7

¹ Including United Kingdom, France, Italy, West Germany, Belgium, Netherlands and Luxemburg.